



# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## Legislative Actuarial Note

**BILL NUMBER:** House Bill 1213 (First Edition)  
**SHORT TITLE:** Local Governments in State Health Plan.  
**SPONSOR(S):** Representatives Ramsey and Moffitt

**SYSTEM OR PROGRAM AFFECTED:** State Health Plan for Teachers and State Employees (Plan).

**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverage's selected by eligible former employees; premium payments for coverage's selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

### **BILL SUMMARY:**

House Bill 1213 (First Edition) proposes to add local governments to the list of employers eligible to have their employees participate in the Plan under the following conditions:

- The local government must meet certain administrative and legal requirements.
- The Plan is required to admit any local government meeting those requirements, regardless of claims experience. Participation is optional for the local government.
- The local government shall determine which employees, retirees, and dependents are eligible and what portion of the premium they will pay.
- The total premium will be the same as for other employers participating in the Plan and cannot vary by claims experience.
- The local government may restrict the plan options available to its employees.
- All premiums will be paid to the Plan and not to the retirement system or Retiree Health Benefit Fund.
- All local governments and their employees that participate under the policies in the Third Edition will be removed from the Plan at the end of 2017, except that retirees who retired prior to that point shall continue to be eligible for coverage.

16 local governments already participate in the Plan, covering 1,887 employees, 965 dependents and roughly 500 retirees. These local governments were added in several different laws passed between 2004 and 2007. These local governments participate under different, sometimes ambiguous policies and the bill gives these governments an option to elect to participate under the clarified policies contained in the bill.

**EFFECTIVE DATE:** House Bill 1213 (First Edition) is effective when it becomes law.

### **ESTIMATED IMPACT ON STATE:**

Both The Segal Company, the actuary for the Plan, and Hartman & Associates, the actuary for the General Assembly, state that the cost cannot be determined due to a lack of demographic data and claims experience for the workforce of the local governments that might wish to join.

However, both actuaries expect a cost due to adverse selection. Adverse selection occurs when local governments and/or employees with higher-than-average claims cost are more likely to join the Plan than those with lower-than-average claims costs and those higher costs cannot be recovered through adjustments to premiums. The following aspects of the bill contribute to the potential for adverse selection:

- Participation is optional for local governments and the Plan cannot deny participation to any local unit. It is possible that local governments with higher-than-average claims costs will be more likely to choose to join.
- Local governments can determine eligibility and plan options. Local governments could choose to set eligibility rules and select plan options that encourage employees with higher-than-average claims costs to enroll.
- Premiums cannot vary with the experienced claims for a particular local government, so the Plan cannot charge a higher premium to a local government whose employees incur higher-than-average claims.

The Segal Company also noted that the provision continuing eligibility for retirees after 2017 may increase the Other Post-Employment Benefit (OPEB) liability for the State, although this increase is expected to be fairly small.

**ASSUMPTIONS AND METHODOLOGY:** The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

### **Summary Information and Data about the Plan**

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments and charter schools may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who participate in a plan with a non-zero premium or who elect dependent coverage. Starting in 2014, benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums without needing to complete wellness activities,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 70/30 plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plans (MA-PDPs) from a choice of two carriers, Humana or United Healthcare, that are actuarially equivalent to the "Enhanced" 80/20 Plan and apply in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDPs, identical to the "Base" MA-PDPs, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2014:

**Active Employees and Non-Medicare Retirees**

Wellness Plans

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Enhanced 80/20 Plan	\$448.11	\$13.56	\$63.56
Consumer-Directed Health Plan	\$448.11	\$0.00	\$40.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$448.11	\$0.00

\* Members receive credits for each activity. We have shown all or none for simplicity.

**Medicare Retirees**

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$348.25	\$0.00
MA-PDP Enhanced Plan	\$348.25	\$33.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$348.25	\$0.00

**Dependents**

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Enhanced 80/20	CDHP	Traditional 70/30	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$272.80	\$184.60	\$205.12	\$114.50	\$147.50	\$145.94
Employee/Retiree + Spouse	\$628.54	\$475.68	\$528.52	\$114.50	\$147.50	\$383.72

Employee/Retiree + Family	\$666.38	\$506.64	\$562.94		\$229.00	\$295.00	\$418.10
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The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2013-14, employers contribute 5.40% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$834 million.

### **Financial Condition**

**Projected Results for CY 2014 and CY 2015** – The following summarizes projected financial results for 2014 and 2015, based on financial experience through December, 2013 and enrollments for January, 2014. The projection assumes an 8.5% annual claims growth trend, benefit provisions and member-paid premiums as currently adopted by the Board, and assumed premium increases in 2015 based on the maximum annual employer premium for FY 2014-15.

	(\$ millions)	
	Projected CY 2014	Projected CY 2015
Beginning Cash Balance	\$838.4	\$819.9
Receipts:		
Net Premium Collections	\$2,910.7	\$2,996.6
Medicare Part D / EGWP Subsidies	\$36.0	\$38.0
Investment Earnings	\$3.3	\$3.1
Total	\$2,950.0	\$3,037.8
Disbursements:		
Net Medical Claim Payment Expenses	\$1,982.2	\$2,124.5
Net Pharmacy Claim Payment Expenses	\$640.2	\$635.3
Medicare Advantage Premiums	\$157.8	\$196.9
Administration and Claims-Processing Expenses	\$188.4	\$214.4
Total	\$2,968.6	\$3,171.2
Net Operating Income (Loss)	(\$18.6)	(\$133.4)

Of the premiums paid in CY 2014, an estimated \$2.0 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

### **Other Information**

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, fraud detection, and other authorized actions by the State Treasurer, Executive Administrator, and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 8.5% annually according to the Plan's consulting actuary. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

**Enrollment as of January 1, 2014**

<b>I. No. of Participants</b>	<b>Traditional 70/30</b>	<b>Enhanced 80/20</b>	<b>Consumer Directed</b>	<b>Medicare Advantage</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>						
Employees	145,741	160,388	8,432	-	314,561	46.5%
Dependents	81,434	69,832	8,581	-	159,847	23.6%
Sub-total	227,175	230,220	17,013	-	474,408	70.1%
<u>Retired</u>						
Employees	53,590	30,249	791	96,532	181,162	26.8%
Dependents	6,329	3,884	299	6,851	17,363	2.6%
Sub-total	59,919	34,133	1,090	103,383	198,525	29.3%
<u>Other</u>						
Employees	1,326	1,448	35	-	2,809	0.4%
Dependents	830	510	35	-	1,375	0.2%
Sub-total	2,156	1,958	70	-	4,184	0.6%
<u>Total</u>						
Employees	200,657	192,085	9,258	96,532	498,532	73.6%
Dependents	88,593	74,226	8,915	6,851	178,585	26.4%
<b>Grand Total</b>	<b>289,250</b>	<b>266,311</b>	<b>18,173</b>	<b>103,383</b>	<b>677,117</b>	<b>100%</b>
<b>Percent of Total</b>	<b>42.7%</b>	<b>39.3%</b>	<b>2.7%</b>	<b>15.3%</b>	<b>100.0%</b>	
<b>II. Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	154,239	153,049	5,041	96,532	408,861	
Employee Child(ren)	27,169	24,228	2,077	195	53,669	
Employee Spouse	6,685	5,630	567	6,656	19,538	
Employee Family	11,079	8,407	1,499			
Other (e.g. Split Contract)	1,485	771	74		2,330	
<b>Total</b>	<b>200,657</b>	<b>192,085</b>	<b>9,258</b>	<b>103,383</b>	<b>484,398</b>	
<b>Percent Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	76.9%	79.7%	54.5%	93.4%	84.4%	
Employee Child(ren)	13.5%	12.6%	22.4%	0.2%	11.1%	
Employee Spouse	3.3%	2.9%	6.1%	6.4%	4.0%	
Employee Family	5.5%	4.4%	16.2%	0.0%	0.0%	
Other (e.g. Split Contract)	0.7%	0.4%	0.8%	0.0%	0.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>III. Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	170,705	174,259	10,133	67,923	423,020	
Male	118,545	92,052	8,040	35,460	254,097	
<b>Total</b>	<b>289,250</b>	<b>266,311</b>	<b>18,173</b>	<b>103,383</b>	<b>677,117</b>	
<b>Percent Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	59.0%	65.4%	55.8%	65.7%	62.5%	
Male	41.0%	34.6%	44.2%	34.3%	37.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>IV. Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	76,689	61,793	6,901	14	145,397
25 to 44	80,007	70,332	5,155	344	155,838
45 to 54	49,210	53,187	3,236	1,328	106,961
55 to 64	50,478	74,807	2,712	1,821	129,818
65 & Over	32,866	6,192	169	99,876	139,103
<b>Total</b>	<b>289,250</b>	<b>266,311</b>	<b>18,173</b>	<b>103,383</b>	<b>677,117</b>

  

<b>Percent Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	26.5%	23.2%	38.0%	0.0%	21.5%
25 to 44	27.7%	26.4%	28.4%	0.3%	23.0%
45 to 54	17.0%	20.0%	17.8%	1.3%	15.8%
55 to 64	17.5%	28.1%	14.9%	1.8%	19.2%
65 & Over	11.4%	2.3%	0.9%	96.6%	20.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	54,826	9,292	64,118
Medicare Eligible in Traditional 70/30	29,803	1,220	31,023
Medicare Eligible in Base Medicare Advantage Plans	62,843	2,633	65,476
Medicare Eligible in Enhanced Medicare Advantage Plans	33,689	4,218	37,907
<b>Total</b>	<b>181,161</b>	<b>17,363</b>	<b>198,524</b>

  

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	30.3%	53.5%	32.3%
Medicare Eligible in Traditional 70/30	16.5%	7.0%	15.6%
Medicare Eligible in Base Medicare Advantage Plans	34.7%	15.2%	33.0%
Medicare Eligible in Enhanced Medicare Advantage Plans	18.6%	24.3%	19.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	70,922	32,938	103,860
UNC System	51,237	31,643	82,880
Local Public Schools	173,477	85,054	258,531
Charter Schools	3,056	1,766	4,822
Local Community Colleges	15,869	8,446	24,315
Other			
Local Governments	1,887	965	2,852
COBRA/Reduction in Force	917	405	1,322
Nat. Guard, Fire & Rescue	6	4	10
Sub-total	317,371	161,221	478,592
Retirement System	181,162	17,363	198,525
<b>Total</b>	<b>498,533</b>	<b>178,584</b>	<b>677,117</b>

  

<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	14.2%	18.4%	15.3%
UNC System	10.3%	17.7%	12.2%
Local Public Schools	34.8%	47.6%	38.2%
Charter Schools	0.6%	1.0%	0.7%
Local Community Colleges	3.2%	4.7%	3.6%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA/Reduction in Force	0.2%	0.2%	0.2%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	63.7%	90.3%	70.7%
Retirement System	36.3%	9.7%	29.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**SOURCES OF DATA:**

The Segal Company; North Carolina State Health Plan; Financial Projections – Dec 2013; March 20, 2014. Filename “NCSHP Q2 Financial Update - Baseline Modified Jan Enrollment Estimate Adj Reserve.pdf”

-Actuarial Note, Hartman & Associates, House Bill 1213, “House Bill 1213: An Act to Allow Local Government Units to Enroll Their Employees, Retirees, and Dependents in the State Health Plan for Teachers and State Employees”, June 4, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, House Bill 1213, “Local Governments in State Health Plan”, June 13, 2014, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY:** David Vanderweide

**APPROVED BY:**

Mark Trogdon, Director  
Fiscal Research Division

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